

## Lesson 9: Income – Business; Form 1040, Line 12

### Can Vanessa file Schedule C-EZ?

On Form 13614-C, Part III, Income, Vanessa answered “Yes” to self-employment income. You learned that this came from her cosmetics business.

Refer to Publication 4012 (Tab 2) to see a facsimile of Schedules C and C-EZ. You should familiarize yourself with the requirements for filing Schedule C-EZ prior to conducting this part of the interview. The requirements can be found in Schedule C-EZ, Part I.

You need to ask additional questions about her business income and expenses to determine if she can report it on Schedule C-EZ.

#### TIP

Preparation of tax returns with Schedule C are in scope for VITA/TCE under certain limited conditions and with expenses of \$10,000 or less.

### Sample interview on the use of Schedule C-EZ

#### SAMPLE INTERVIEW

##### VOLUNTEER SAYS...

##### VANESSA RESPONDS...

*Let's talk about your income from your personal cosmetics business.*

OK, I have all my stuff right here.

*You may be able to file Schedule C-EZ. First, during 2011, what was the total of your business expenses?*

\$590. I made a summary of all my income and expenses from my business bank account. This account is purely for my business.

*Okay. You use the cash method of accounting. Did you carry any inventory during the year?*

No, the only things I have are the samples for parties and individual consultations. When I get an order, I send it through the supplier and the products go directly to the customer or I deliver them personally.

*Did you have a loss on the business in 2011?*

No. I sold \$2,990 worth of cosmetics last year and my expenses were \$590.

*Did you have any employees?*

No, I did it all myself.

*And you aren't taking any kind of depreciation or amortization on equipment or property owned by the business?*

No, I don't have anything like that!

*Do you intend to deduct expenses for using your home as your office?*

No, not at all.

*Have you always been the only person involved in this business?*

Yes.

*Good. Then we can prepare Schedule C-EZ for you!*

Great!

You learned key facts that determined that Vanessa can file Schedule C-EZ. She had self-employment income of \$2,990 and expenses of \$590 from her business. She has met all the requirements for the use of a Schedule C-EZ, which is within the scope of the VITA/TCE program.

Next, you ask probing questions to gather information about business expenses you will enter on Schedule C-EZ.

SAMPLE INTERVIEW (continued)

VOLUNTEER SAYS...

VANESSA RESPONDS...

Do you have any Forms 1099-MISC for income from your cosmetics business?

No, all my clients just write me personal checks or pay in cash. But I keep this business account separate from my personal account – it's a lot easier that way!

Good! Does this year-end summary for your business account list all the deposits and expenses for your business?

Yes, it does.

That makes it easy. By the way, do you use your vehicle to conduct your business?

Yes, for parties and deliveries; that sort of thing.

Did you keep track of the mileage that went only for your business?

No.

Well, that is a deductible expense. If you do drive anywhere for the business, try keeping a pad of paper in the car and always record your odometer reading, and document the business purpose of the trip.

I sure will!

Before you continue the interview, be sure to indicate Vanessa's responses to these questions on page 2 of Form 13614-C. In the margins of Part III, item 7, enter "Total income \$2,990, expenses \$590."

Section A. Please complete – check Yes, No or Unsure to all questions below. Please ask if you need help.

Part III. Income – In 2011, did you (or your spouse) receive:

Yes No Unsure

- ☒ ☐ ☐ 1. Wages or Salary? (Form W-2) *Wages \$31,000*
- ☐ ☒ ☐ 2. Tip Income?
- ☐ ☒ ☐ 3. Scholarships? (Forms W-2, 1098-T)
- ☐ ☒ ☐ 4. Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
- ☐ ☒ ☐ 5. Refund of state/local income taxes? (Form 1099-G)
- ☐ ☒ ☒ 6. Alimony Income? *Child support income, not alimony*
- ☒ ☐ ☐ 7. Self-Employment payments (such as cash received for services, small business)? (Form 1099-MISC)
- ☐ ☒ ☐ 8. Income (or loss) from the sale of Stocks, Bonds or Real Estate (including your home)? (Forms 1099-S, 1099-B) *Total income \$2,990, expenses \$590*
- ☐ ☒ ☐ 9. Disability Income (such as payments from insurance or workers compensation)? (Forms 1099-R, W-2)
- ☐ ☒ ☐ 10. Distributions from Pensions, Annuities, and/or IRA? (Form 1099-R)
- ☐ ☒ ☐ 11. Unemployment Compensation? (Form 1099-G)
- ☐ ☒ ☐ 12. Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
- ☐ ☒ ☐ 13. Income (or loss) from Rental Property?
- ☐ ☒ ☐ 14. Other Income: (gambling, lottery, prizes, awards, jury duty, etc.) Specify: \_\_\_\_\_  
(Forms W-2 G, 1099-MISC)

## What “other income” must Vanessa report?

Recall that Vanessa only checked “Yes” to wages and self-employment in the Income section of her Form 13614-C. We previously determined that her “Unsure” response for alimony was actually child support. You will still need to verify that she did not receive any other income that must be reported, even though she answered “No” for all other income items. A list of other possible sources of income can be found in Publication 4012 (Tab D), Income section.

You ask additional probing questions to ensure all other responses to income are correct.

### Sample Interview Clarifying Other Income

SAMPLE INTERVIEW	
VOLUNTEER SAYS...	VANESSA RESPONDS...
<i>Okay, Vanessa. Even though you only checked “Yes” to Wages and Self-Employment income on your intake and interview sheet, I want to make sure that you did not receive any other form of income during 2011. Here is a list of things that are considered income. Did you receive any of these in 2011? [Volunteer shows Vanessa Table A, Examples of Income, in Publication 4012 (Tab D).]</i>	I don’t think so. No, I’m sure I didn’t.
<i>Okay, that finishes up the Income section. Next, we’ll discuss any adjustments to your income.</i>	

Be sure to record any additional information you gained from the taxpayer’s responses, on Form 13614-C, page 4.



Return to Lesson 9.